

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period  
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MADISON COUNTY**  
**SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period**  
**April 16, 2011 Through April 16, 2012**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for the Madison County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$42,001,085 for the districts for 2011 taxes, retaining commissions of \$1,097,457 to operate the Sheriff's office. The Sheriff distributed taxes of \$40,822,319 to the districts for 2011 taxes. Taxes of \$61 are due to the districts from the Sheriff and refunds of \$5,110 are due to the Sheriff from the taxing districts.

**Report Comment:**

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

## PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2011 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	9
COMMENT AND RECOMMENDATION .....	13





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Honorable Jerry Combs, Madison County Sheriff  
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the Madison County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Madison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Madison County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Kent Clark, Madison County Judge/Executive  
Honorable Jerry Combs, Madison County Sheriff  
Members of the Madison County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

December 7, 2012



MADISON COUNTY  
JERRY COMBS, SHERIFF  
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 3,268,176	\$ 6,774,168	\$ 23,522,332	\$ 4,803,825
Tangible Personal Property	252,334	807,064	1,523,937	1,357,602
Fire Protection	44			
Increases Through Exonerations	1,887	4,136	12,888	3,685
Franchise Taxes - Billed	154,327	383,126	1,013,236	
Additional Billings - Current Year	6,127	13,557	42,226	19,775
Additional Billings -Prior Years	1,048	2,090	7,093	1,800
Miscellaneous			1,670	
Limestone, Sand and Mineral Reserves	953	1,964	6,696	1,401
Bank Franchises	208,027			
Penalties	10,648	22,867	76,536	16,386
Adjusted to Sheriff's Receipt	33	(127)	19	(8)
Gross Chargeable to Sheriff	3,903,604	8,008,845	26,206,633	6,204,466
<u>Credits</u>				
Exonerations	7,840	16,593	56,734	11,121
Discounts	60,863	122,684	401,700	98,350
Delinquents:				
Real Estate	115,893	241,073	845,312	170,348
Tangible Personal Property	6,006	15,766	37,949	23,170
Delinquent - Prior Year Additional Bills	278	566	1,865	412
Franchise Taxes	9,171	24,011	54,758	
Total Credits	200,051	420,693	1,398,318	303,401
Taxes Collected	3,703,553	7,588,152	24,808,315	5,901,065
Less: Commissions *	157,401	317,136	372,125	250,795
Taxes Due	3,546,152	7,271,016	24,436,190	5,650,270
Taxes Paid	3,538,686	7,255,958	24,386,597	5,641,078
Refunds (Current and Prior Year)	7,466	16,687	53,013	9,192
Due District or (Refunds Due Sheriff) as of Completion of Audit	\$ 0	\$ (1,629)	\$ (3,420)	\$ 0

\*, \*\*, and \*\*\* See next page.

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY  
 JERRY COMBS, SHERIFF  
 SHERIFF'S SETTLEMENT - 2011 TAXES  
 For The Period April 16, 2011 Through April 16, 2012  
 (Continued)

\* Commissions:

4.25% on	\$	15,048,664
4% on		2,144,106
1.5% on		24,808,315

\*\* Special Taxing Districts:

Watershed District	\$	(1,629)
--------------------	----	---------

(Refund Due Sheriff)	\$	(1,629)
----------------------	----	---------

\*\*\* School Districts:

Common School	\$	61
Berea Independent		(3,481)

Due District or

(Refund Due Sheriff)	\$	(3,420)
----------------------	----	---------

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Madison County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 16, 2012  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Madison County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2011 through April 16, 2012.

Note 4. Sheriff's 10% Add-On Fee

The Madison County Sheriff collected \$84,205 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of December 7, 2012, the Sheriff has paid all 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kent Clark, Madison County Judge/Executive  
Honorable Jerry Combs, Madison County Sheriff  
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Madison County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated December 7, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Madison County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

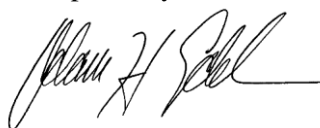
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Madison County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Madison County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

December 7, 2012



COMMENT AND RECOMMENDATION



MADISON COUNTY  
JERRY COMBS, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period April 16, 2011 Through April 16, 2012

INTERNAL CONTROL - MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls over receipts and disbursements, it was noted that controls regarding review over either receipts or disbursements were not in place. The bookkeeper prepares daily deposit tickets, prepares and signs checks (with a second signer), posts to both the receipts and disbursements ledgers, and prepares bank reconciliation. In an effort to decrease risk of misappropriation and/or inaccurate financial reporting, it is recommended that the Sheriff segregate some of these duties among different employees or implement compensating controls. Some examples of segregated duties or compensating controls are:

- Sheriff assign an office clerk to perform bank reconciliation.
- Sheriff document periodic review of daily checkout sheets and deposit tickets.
- Sheriff document monthly review of bank reconciliations.
- Sheriff document random cash counts on the deposit ticket.

We also recommend the Sheriff evidence these compensating controls by initialing and dating all documents reviewed.

*Sheriff's Response: A clerk has been assigned to perform bank reconciliations. Random cash counts will also be done.*

